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The Real Budgetary Impact of the House and Senate Health Bills

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President Barack Obama pledged in an address to a joint session of Congress in September 2009 that any health care bill he signed would cost no more than $900 billion over 10 years and would not worsen the federal budget deficit in the short or long term.[1]

The bills that have been passed in the House and Senate violate both of those tests. Supporters of these bills point to Congressional Budget Office (CBO) cost estimates to support their contention that the health care plans are fiscally responsible. But a closer look at the bills—and what CBO actually said about them—indicates that both spending and the federal debt will go up much more than advertised by the bills' supporters.

Conveniently Ignoring a $200 Billion-Plus "Doc Fix." Both the President and congressional leaders have signaled that they will not allow a scheduled 21 percent reduction in Medicare physician fees to go into effect in 2010 or later years. Initially, the House bill included a permanent repeal of the planned fee cuts in their version of health reform legislation, released in July 2009, at a cost of $229 billion over 10 years.[2]

However, after the President announced the $900 billion limit in September, House leaders decided to drop this provision from the legislation and pass it in a separate bill. Senate leaders followed a similar course.

But passing a permanent "doc fix" separately does not change the fact that it increases federal spending. When these costs are properly included, neither the House nor the Senate version reduces the federal budget deficit between 2010 and 2019. Assuming about $210 billion for a "doc fix," both bills would actually increase the deficit by $80 billion over a decade.[3]

Non-Coverage Spending in the Bills. In the House bill, the gross cost of the Medicaid expansions and the entitlement to new premium subsidies in the exchange is $1.055 trillion over 10 years. In addition, the House legislation includes scores of other spending provisions costing $230 billion over a decade. With a $210 billion physician fee bill, the total cost of the House's health care effort reaches $1.5 trillion between 2010 and 2019.

In the Senate legislation, the cost of the coverage expansion is $871 billion between 2010 and 2019. Other spending in the bill totals about $90 billion over 10 years. With about $200 billion more for a permanent repeal of the Medicare physician fee cut, the Senate plan's total cost approaches $1.2 trillion.

The Medicare Double-Count. The House and Senate bills rely heavily on Medicare spending reductions to offset the costs of the entitlement expansions. The Senate bill's Medicare cuts total

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Spending Provisions in the House and Senate Health Care Plans

	House	Senate
Coverage Expansions	$1.055 trillion	$0.871 trillion
Other Spending	$0.230 trillion	$0.090 trillion
Physician Fee Fix	$0.210 trillion	$0.200 trillion
Total Spending	**$1.495 trillion**	**$1.161 trillion**

Source: Author's calculations based on Congressional Budget Office, "Preliminary Estimate of the Effects on the Deficit of H.R. 3200, the America's Health Choices Act of 2009," July 17, 2009, at *http://www.cbo.gov/ftpdocs/104xx/doc10464/hr3200.pdf* (January 13, 2010) and "H.R. 3961: Medicare Physician Payment Reform Act of 2009," November 4, 2009, at *http://www.cbo.gov/ftpdocs/107xx/doc10704/hr3961.pdf* (January 13, 2010).

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$467 billion.[4] At the same time, the Administration and the congressional sponsors of these bills are also touting the claim that reduced spending from the Medicare Hospital Insurance (HI) trust fund and increased revenues flowing into it would boost the trust fund's reserves and therefore keep the program solvent for several more years.[5] Others have said that this would double-count the same savings twice: once to pay for a new entitlement and again to keep Medicare going.

CBO Director Douglas Elmendorf issued a clarification on December 23 and agreed that the Medicare HI savings cannot be counted twice.[6] Either it is used to offset a new entitlement or it is used to improve the government's capacity to pay future Medicare benefits.

CBO estimates that provisions in the Senate bill would increase Medicare HI revenues by $113 billion between 2010 and 2019 and decrease HI spending by $240 billion over that same period. If these tax increases and spending reduction provisions were set aside entirely to improve the capacity to finance Medicare benefits, the Senate bill would lose more than $350 billion in current offsets, which would mean that the bill increased the federal budget deficit by well over $400 billion in the first decade alone. Removing the HI savings from the House-passed legislation would have a similar impact on the bill's bottom line.

The CLASS Act Gimmick. Both the House- and the Senate-passed bills would stand up an entirely new entitlement program for long-term care services. Under the Community Living Assistance Services and Support (CLASS) Act, eligible participants would be required to pay premiums well in advance of receiving any benefit payments. Consequently, starting this new program from scratch would produce one-time "savings" from premium collections before any beneficiaries start drawing benefits. These premium collections, however, would be needed later to meet entitlement obligations.

This is again a case of double-counting. The premiums are set aside in a fund to pay future claims, but they are also counted by the bills' sponsors as an offset for expanding health coverage. The CLASS Act premiums total $72 billion over 10 years in the Senate bill and $102 billion over the same period in the House bill.

The True 10-Year Window. None of the key provisions to expand coverage would go into effect

1. Press release, "Remarks by the President to a Joint Session of Congress on Health Care," The White House, September 9, 2009, at *http://www.whitehouse.gov/the_press_office/remarks-by-the-president-to-a-joint-session-of-congress-on-health-care* (January 13, 2010).
2. Congressional Budget Office, "Preliminary Estimate of the Effects on the Deficit of H.R. 3200, the America's Health Choices Act of 2009," July 17, 2009, at *http://www.cbo.gov/ftpdocs/104xx/doc10464/hr3200.pdf* (January 13, 2010).
3. Congressional Budget Office, "H.R. 3961: Medicare Physician Payment Reform Act of 2009," November 4, 2009, at *http://www.cbo.gov/ftpdocs/107xx/doc10704/hr3961.pdf* (January 13, 2010).
4. Senate Budget Committee Republican Staff, "Budget Perspective: The Real Deficit Effect of the Health Bill," December 19, 2009, at *http://budget.senate.gov/republican/pressarchive/2009-12-22BudgetPerspective.pdf* (January 13, 2010).
5. The White House, "Medicare Fact Sheet Final," at *http://www.whitehouse.gov/MedicareFactSheetFinal* (January 13, 2010).
6. "Effects of the Patient Protection and Affordable Care Act on the Federal Budget and the Balance in the Hospital Insurance Trust Fund," CBO Director's Blog, December 23, 2009, at *http://cboblog.cbo.gov/?p=448* (January 13, 2010).

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until 2013 in the House bill and 2014 in the Senate bill. Meanwhile, many of the spending reductions, such as the cut in Medicare Advantage payment rates, would kick in much earlier, as would the tax increases. Consequently, both bills have 10 years worth of spending and revenue "offsets" paying for only six or seven years worth of spending.

Looking at these bills over a true 10-year window of full implementation reveals much higher costs. The Senate bill's provisions, even excluding the "doc fix," would total $2.3 trillion over the period 2014 to 2023, with the coverage provisions fully in place.[7] The House bill's true 10-year cost would be comparably high, even excluding the large costs of the physician fee fix.

The Certainty of Future Entitlement Expansions. Both the House and Senate bills assume that the new entitlement spending for coverage expansion can be held down with so-called firewall provisions, which essentially preclude many tens of millions of individuals from gaining access to premium subsidies. These firewall rules would create large disparities in the federal subsidies made available to workers inside and outside the exchanges. And there would be tens of millions more families outside the exchange than in it, according to CBO.

If enacted as currently written, pressure would build to treat all Americans fairly, regardless of where they get their insurance. One way or another, the subsidies provided to those in the exchanges would be made more widely available, driving the costs of reform much higher than CBO's estimates currently indicate.

An Honest Accounting. The President has said that he wants a health reform bill in large part because it is necessary to get better control of the federal budget. But the bills that have been developed in the House and Senate fall far short of his stated objectives. The spending would far exceed $900 billion through 2019, and the federal budget deficit would increase dramatically, not decrease, when all of the numbers are honestly accounted for.

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7. Senate Budget Committee Republican Staff, "Budget Perspective."